

# SIEMENS

Siemens AG, CF R, Werner-von-Siemens-Str. 1, 80333 Muenchen

EFRAG  
35 Square de Meeûs  
B-1000 Brussels  
Belgium

Name	Dr. Jürgen Wagner
Department	CF R
E-mail	wagnerjuergen@siemens.com
Date	November 15, 2019

## Comment letter on EFRAG's discussion paper "Accounting for Pension Plans with an Asset-Return Promise"

Dear Mr. Gauzès,

Siemens Aktiengesellschaft ('Siemens') welcomes the opportunity to comment and discuss the EFRAG discussion paper on "Accounting for Pension Plans with an Asset-Return Promise" issued by EFRAG on May 15, 2019.

Siemens is a German-based multinational technology company with core activities in the fields of electrification, automation and digitalization, showing total assets of EUR 138,915 Mio. as of September 30<sup>th</sup>, 2018. The defined benefit obligation amounts to EUR 35,893 Mio. and the fair value of plan assets to EUR 28,764 Mio. as of September 30<sup>th</sup>, 2018. Siemens has approximately EUR 4 billion defined benefit obligation for pension plans with an asset-return promise predominantly in Germany.

Siemens currently does not see a requirement to change the present accounting practice by introducing a new approach on the accounting for pension plans with an asset return promise. Therefore, we do not favor the introduction of either of the three approaches presented in the Discussion Paper, especially the Fair-Value Based approach and the Fulfillment Value approach as from our point of view they do not fit the current accounting and valuation method in IAS 19.

Should you have any questions or wish to discuss any of the issues in more detail, please do not hesitate to contact Mr. Ulrich Reinauer ([ulrich.reinauer@siemens.com](mailto:ulrich.reinauer@siemens.com), phone +49 (172) 8347464).

Sincerely yours,

Dr. Jürgen Wagner  
Corporate Vice President and Controller

Dr. Marco Ebel  
Head of Accounting and Controlling Policies

**Siemens AG**  
Accounting, Reporting und Controlling  
Management: Juergen Wagner

Werner-von-Siemens-Str. 1  
80333 Muenchen  
Germany

Tel.: +49 (89) 636 00

Siemens Aktiengesellschaft: Chairman of the Supervisory Board: Jim Hagemann Snaube;  
Managing Board: Joe Kaeser, Chairman, President and Chief Executive Officer; Roland Busch, Lisa Davis, Klaus Helmrich,  
Janina Kugel, Cedrik Neike, Michael Sen, Ralf P. Thomas  
Registered offices: Berlin and Munich, Germany; Commercial registries: Berlin Charlottenburg, HRB 12300, Munich, HRB 6684  
WEEE-Reg.-No. DE 23691322

## Appendix - Answers to the questions of the discussion paper

### QUESTION 1 - SCOPE

**The Discussion Paper addresses only those pension plans that have an asset-return based promise and hold the assets upon which the benefits are dependent. Do you think that the approaches could also be applied to those plans with an asset-return promise, where the plan does not hold the reference assets?**

Siemens concurs that the measurement inconsistencies for pension plans with an asset-return based promise result especially when these plans hold the reference assets. Therefore, it seems logical to us to particularly address these pension plans and develop approaches fitting for such plans. The Discussion Paper however makes it clear that the measurement of plan assets is not subject to the proposals of the paper which from our point of view is not very convincing since the link between the pension obligation and the performance of the (plan) assets is a vital part of the underlying question. Thus, although it seems correct to only address pensions plans with an asset-return promise that hold the assets, additionally also the assets' performance and their link to the pension obligation should be included in the deliberations.

### QUESTION 2 – ASSESSMENTS OF APPROACHES – ASPECTS TO CONSIDER

**Do you agree with the aspects of qualitative characteristics considered in the assessment of the various approaches in Chapter 5? If not, which aspects do you think should/should not have been considered? Do you agree with the assessments of the various approaches made in Chapter 5?**

The criteria depicted by EFRAG represent in our understanding a comprehensive overview to evaluate the proposed approaches. As to the results themselves, the Capped Asset Return Approach overall receives a slightly too negative assessment. However, one major aspect of the Capped Asset Return Approach is not adequately reflected in the assessment: Based on our understanding from the examples, the liability based on the Capped Asset Return Approach is generally lower than the regular IAS 19 liability due to the capping of the benefit projection rate at the discount rate assuming that the former exceeds the latter without capping. Since plan assets are still measured at fair value, the approach has the tendency to understate the pension liability and might even lead to a net defined benefit asset that is actually not prevalent, because the liability is actually higher, but capped at a lower projection rate for conceptual reasons. Probably, asset ceiling rules should apply then. Nonetheless this would then certainly also require changes to the definition of the asset ceiling.

Both the Fair Value Based and the Fulfilment Value Approach are judged in a rather too positive way. Both approaches might have a certain attraction on a conceptual/theoretical level, but in our opinion do not fit the current conceptual set-up of IAS 19 (e.g. remeasurement effects in profit and loss) and would mean a significant change to current accounting concepts applied in IAS 19. In addition, the requirement for a very complex fair value determination of pension obligations under these two approaches by Option Pricing Models with many unknown parameters and data input really threatens the understandability, comparability and implementation of such approaches.

### QUESTION 3 - ASSESSMENT OF APPROACHES – ASSESSMENT OF COMPLEXITY

**The assessment in Chapter 5 of the costs related to the various approaches presented in this Discussion Paper, only considers implementation costs. Do you think that the complexity related to preparing financial information in accordance with the approaches would differ significantly? If yes, which approaches would be the most complex and least complex to apply?**

Based on the three approaches presented in the Discussion Paper, the Capped Asset Return Approach would be less costly and complex in its implementation in comparison to the other two alternatives, nevertheless, the implementation cost should not be underestimated. The other two approaches will require even more significant implementation costs, not only internally, but also regarding actuaries and auditors. Apart from that, conceptually different approaches like the Fair Value Based and Fulfilment Value would certainly lead to many discussions as to their conceptual and practical implementation with the Company's management, actuaries and auditors, e.g. due to the requirement to use Option Pricing Models including a variety of unknown parameters and data input. The change and set-up of financial statement preparation would doubtlessly also result in significant effort and costs.

## **QUESTION 4 – CHOICE OF APPROACH**

**Which of the three alternative approaches, presented in this Discussion Paper, do you support? How should it be further developed?**

Choosing from the three approaches presented in the discussion paper, the Capped Asset Return Approach would rather be supported by us which already is implied in our answers to the previous questions. However, we refer to our answer to question 3 that we think that neither of the three approaches adequately captures the underlying question nor gives a convincing solution to it. Additionally, two approaches are so conceptually new and complex that they furthermore cannot be implemented without major implementation and other costs.

## **QUESTION 5 - PRESENTATION OF REMEASUREMENTS UNDER THE FAIR VALUE BASED APPROACH AND THE FULFILMENT VALUE APPROACH**

**This Discussion Paper assumes that remeasurements under the Fair Value Based approach and the Fulfilment Value approach are presented in profit or loss. Do you agree with this approach? If not, how would you present components of defined benefit costs other than service costs?**

The presentation of remeasurement effects in profit or loss is not in line with the current IAS 19. We do not fully understand the conclusion why the remeasurement effects of two of the proposed approaches would be reflected in profit or loss, but the remeasurement effects of the Capped Asset Return Approach in OCI. In our opinion, the three approaches should be consistent in reflecting remeasurement effects either in OCI or in profit and loss. Given that IAS 19 requires the recognition in OCI, we do not think that new approaches should differ from the general concept of IAS 19 under the assumption that IAS 19 as such is not opened for complete reconsideration.

## **QUESTION 7 - DISCLOSURE**

**Do you think that additional disclosure requirements about pension plans, included in scope of this Discussion Paper, should be added to the requirements of IAS 19?**

We think that the current IAS 19 disclosure requirements are comprehensive as well as exhaustive and answer the information needs of the financial statements' addressees. Therefore, no additional disclosure requirements should be added to the requirements of IAS 19.

## QUESTION 8 – ALTERNATIVE APPROACHES

**Do you think there are other approaches to account for the pension plans within the scope of this Discussion Paper that should have been considered? If so, which approaches?**

The accounting for pension plans that depend on asset returns including a minimum return guarantee is relevant for Siemens, because pensions plans with these features are common e.g. in Germany. Nevertheless, Siemens currently does not see the requirement to change the prevailing accounting by introducing a new approach on the accounting for pension plans with an asset-return promise.